

Over the past decade, some U.S. Forest Service employees have given up secure civil service careers to become entrepreneurs—within their former agency. As part of the Forest Service Enterprise Program, they create business and marketing plans and provide products and services at competitive prices. Whether the Enterprise Program is shortsighted or visionary has yet to be decided, but as it marks its tenth anniversary in 2007, the scales seemed to have tipped toward the latter assessment.

THE U.S. FOREST SERVICE ENTERPRISE PROGRAM

REINVIGORATING GOVERNMENT

Determined to balance the budget upon taking office in 1993, President Bill Clinton initiated the National Performance Review (NPR), more popularly known as the “reinvention of government,” to produce a government that worked more efficiently and cost the taxpayers less. By 1996,

NPR had cut nearly a quarter-million jobs, saving taxpayers an estimated \$118 billion.¹ NPR sparked the creation of more than 325 “reinvention laboratories” throughout the federal government, each tasked with finding radical new ways of doing business. Aggressive downsizing and a relentless push for innovation meant it was no longer business as usual for many federal agencies. The Enterprise Program, created in 1997, was one of the Forest Service’s initiatives in reinventing itself.

The “reinvention of government” initially reached the Forest Service in 1994, with the passage of the Department of Agriculture Reorganization Act (7 U.S.C. §§ 6901–7014), which mandated agency-wide reorganization.² Anticipating change before the president had signed the bill, groups of people at all levels of the agency had already begun discussing options. By coincidence, the concept that would later become the Enterprise Program emerged simultaneously at opposite ends of the country.

BY TONI L. STAFFORD



The Adaptive Management Services' Fire Behavior Assessment Team setting up equipment prior to a prescribed burn on the Tahoe National Forest in California, summer 2006.



REINVENTING THE FOREST SERVICE

In the fall of 1995, a small group of employees in Region 5 (Pacific Southwest) brainstormed ways to reorganize and streamline administrative functions to be more businesslike. Mike Duffy, the region's financial manager, along with Forest Supervisors John Phipps, Gene Zimmerman, and several others, became interested in creating groups that would compete to provide administrative functions to forests. Duffy and others reasoned that competition would increase both service and efficiency.

At the same time, Dave Radloff was leading the Forest Service's reinvention efforts in Washington, D.C. Radloff's team recognized that they were "moving away from large staff organizations toward a model in which units that use their budgets to care for the land and serve people can purchase services they need from internal enterprises" and began planning accordingly.³

The idea of creating functional units within the agency that acted like businesses and competed to serve national forests soon expanded beyond administrative functions to include resource management. The Region 5 group explored business models with several consultants before entering into collaboration with Gifford Pinchot III. Grandson of the first chief of the Forest Service, Pinchot was a natural fit. He and his wife Libba had coauthored *The Intelligent Organization*, which mapped out a strategy for groups within corporations to become "intraprisers"—or internal businesses—that served clients within the corporation. The Forest Service sought flexible organizations, which Duffy had dubbed "enterprise units," to complement agency line and staff structure.

In 1996, Duffy and Radloff crossed paths and compared notes. Radloff invited Duffy to brief Doug Farbrother of the NPR staff, and within a few months the group in Region 5 had been designated a reinvention lab. Their task was to create the Enterprise Program.

CREATING THE ENTERPRISE PROGRAM

The Forest Service needed to address myriad questions before the Reinvention Lab could transform federal employees into small business entrepreneurs. The largest hurdles were creating human resource procedures that met both agency and union⁴ needs and establishing a means to process financial transactions and track financial performance. In addition, there were the never-ending attempts to explain the concept to individuals at all levels of the agency.

The most basic business requirement is a system for tracking expenditures and income, and a method to store that income. Whereas most Forest Service budgets "zero out" at the end of each fiscal year, the new enterprises, Pinchot explained, "had to find a way to carry the money over from year to year so that people could build up capital...because that's what allows them to take risks."⁵ In May 1998, the USDA Office of General Counsel authorized the creation of an "enterprise fund" within the agency's Working Capital Fund. Under this authority, the Reinvention Lab established the Enterprise Development Bank. Additionally, enterprise units would be able to receive advance payments from their client national forests to fund their work. The units would generate a small reserve of capital that would be available in later years for reinvestment into the business—crucial to a business's ability to buy supplies and equipment, hire new employees, and market its services.

While the Forest Service was ironing out details of the program, the agency continued adding jobs to the Workforce Restructuring and Placement System (WRAPS) list as part of its downsizing. When federal positions are abolished, employees are placed on WRAPS and efforts are made to place them elsewhere within the agency or government. Merl Sturgeon, a career Region 5 check cruiser and scaler, found himself on the WRAPS list in 1997. A new job oftentimes necessitates a move, but Sturgeon was not interested in moving after twenty-nine years

in the same place. Yet at age 53, he was not fully vested for retirement, either. To stay put meant giving up financial security and embracing a new way of working.

By letter in the autumn of 1997, the regional office introduced the Enterprise Program and invited employees to submit prospectuses for business proposals. Entering the program required a leap of faith and entrepreneurial spirit. Employees had to let go of the security of the traditional agency for the risk of a new and perhaps temporary program.⁶ To succeed as a business venture, they would have to find customers and earn every penny of their expenses—known as full-cost recovery. Most civil servants, however, do not naturally think like businesspeople, let alone entrepreneurs. Now, to remain employed, they had to think about products, markets, and expenses.

Sturgeon's prospectus was accepted and he began the Enterprise training. He had spent most of his career in check cruising and check scaling, not running a business. Now, for the first time, he had to write business plans and create PowerPoint presentations and other computer documents. In addition, he had to overcome several personal challenges. Being hearing impaired, he was often not able to clearly hear the trainers, and making the required presentations was difficult because of a speech impediment and his difficulty hearing any questions.

Sturgeon's wife, Lynette, watched one particularly frustrating evening as Merl worked on his enterprise. Overcome by stress and uncertainty, Sturgeon decided to give up. The next morning, Lynette and their daughter Julie committed to helping him make the necessary adjustments and assisted him on the business plan and the PowerPoint presentations. This allowed Merl to concentrate on the details of his enterprise, without worrying about the new technology he had to learn. With that, the Timber Measurement and Expert Services (TEAMS) business was born.⁷

TEAMS was one of nine businesses accepted by the Reinvention Lab Steering Committee on June 2, 1998. The committee comprised representatives from the National Federation of Federal Employees, the Reinvention Lab, the regional forester, Chief Operating Officer Francis Pandolfi and his special assistant Dave Radloff, Babson College Professor of Entrepreneurship Julian Lange, and Gifford Pinchot III.

On July 6, 1998, the nine enterprises opened their doors for business. Many of the first clients were former colleagues who were already familiar with individual business leaders and their offerings. Relationship capital⁸ banked more than \$200,000 in the first fiscal year, which actually covered only three months of operations.

PRECONCEPTIONS AND "STICKER SHOCK"

The process for becoming an "enterpriser" has largely remained the same over the life of the Enterprise Program. Potential enterprisers network their ideas with colleagues to find sponsors, potential partners, and potential clients. If the individual finds this first level of support, then the concept is more likely to succeed in the marketplace.

If the steering committee approves a prospectus, the potential enterpriser attends a series of training sessions on developing a business plan, market research, and financial planning, as well as agency specifics such as human resources and financial

management. By the end of the training, most potential enterprisers have already lined up future work.

Enterprisers, like all entrepreneurs, have a high level of personal commitment and responsibility for the success of the venture. They are well aware of the relationship between time and money. The full-cost recovery requirement drives enterprisers to be efficient, yet customer satisfaction is paramount. Competition compels an enterprise to offer the best service and the highest-quality products possible because customers (the Forest Service and other government agencies) can choose enterprises, external contractors, or employees to do the work.

Not surprisingly in an agency steeped in tradition and known for its resistance to change, the nontraditional program and its workers had a difficult time initially. Free markets and profit making⁹ are concepts that run counter to the agency's century of zero-sum budgeting. Consequently, the enterprise concept met with resistance and generated misunderstandings at all levels of the agency. Preconceptions and false assumptions about the program held that it was more expensive, and that enterprisers were not agency employees but private contractors, did not have to operate by the same rules, and took away jobs.



Opportunities for Enterprise Units are myriad. In 2004, TEAMS personnel joined the National Forests in North Carolina's Storm Recovery Team to help rebuild numerous trails, roads, bridges, and recreation facilities that were destroyed by Hurricane Ivan. This portion of the Whitesides Mountain Trail near Highlands, North Carolina, was rebuilt with steel-treaded steps to curb damage from constant groundwater seeps and winter ice flows.

COURTESY OF MIKE ALCORN, TEAMS PLANNING, ENVIRONMENTAL SCIENCES PROGRAM LEADER, ASHEVILLE, NC



The harvesting of non-timber forest products is an important activity on national forests. Private and commercial mushroom harvesters in central Oregon benefit from Forest Resource Enterprises' work with the Region 6 Special Forest Products Program. This collector shows off her harvest of Matsutake mushrooms in 2006.

How and where enterprisers work is untraditional. Many enterprisers telecommute or are stationed at a host forest. An enterprise unit may purchase office space and services from a host forest, making the enterpriser's workspace just another cubicle alongside those of other agency employees. In some cases, the enterpriser is a former employee of that forest. It sometimes proves challenging for Forest Service employees to adjust to the fact that their neighbor down the hall can no longer collaborate on a project unless there is a signed work order.

To get a signed work order, the enterpriser has to bid on a job. In a traditional Forest Service unit, before a program manager receives a budget, overhead costs such as computers, office space, utilities, vehicles, and administrative support like human resources have already been accounted for. Therefore, the program manager thinks of costs in terms of the cost to government for each employee. In the Enterprise Program, all costs must be recovered for the business to remain solvent, and the bill rate charged by an enterprise reflects all the overhead expenses. The "sticker shock" experienced by program managers over the cost of a project awarded to an enterprise has been an ongoing challenge. Associate Deputy Chief for State and Private Forestry Kent Connaughton explained the challenge: "There is an initial reaction that Enterprise costs the government more. That's a myth...full-cost recovery is simply full-cost identification."¹⁰ The tension created by the sticker shock, however, has provided an opportunity for the enterpriser to help a program manager better understand the true cost of Forest Service operations.

Critics of Enterprise assumed that enterprisers were somehow above the rules. Like many myths, there was a kernel of truth to it. Some reinvention labs created during NPR received waivers

from certain internal agency policies so that they could test ways of reducing bureaucracy and increasing efficiency. Labs and their subsequent programs were encouraged to do things in radically different ways from their traditional agencies, which established a dynamic that is still prevalent today. The Forest Service lab applied for three waivers. One related to regulations for printing business cards, a second involved the cost limitations for holding meetings, and the third was using working capital funds to carry balances over fiscal years. Beyond these three points, however, enterprises follow all the same rules and regulations as the agency.

Enterprisers promoted themselves as being more efficient. Every potential enterprise client is also an agency employee who may feel that his or her job is in jeopardy. In a climate of continuing downsizing and outsourcing, some employees grew fearful of being replaced by enterprisers.¹¹ This reflected a culture clash between traditional agency employees and enterprisers. As the program was rolled out, enterprisers nurtured relationships and tried with some success to counter such negative views. But no amount of nurturing could deflect official criticism directed toward the program. Pinchot and other veterans of the program referred to this phenomenon as the agency's immune system: the program was so different from the traditional agency workings that it was recognized as a foreign entity and, like a virus, attacked by other elements of the system.

REVIEWS AND REACTIONS

There were many ups and downs in the early years of operation. Businesses began operating while the lab was still sorting out how to interface with the agency on such issues as human resources, equipment purchases, documentation for the transfer of funds from the client to the enterprise, and most importantly, tracking of financial information so that the enterprises had up-to-date data to guide business decisions.

In December 1998, a financial and operational review conducted by James Turner of Pinchot and Associates revealed that enterprise owners had insufficient information on their financial status. Financial statements had not yet been provided by the bank, nor did the owners have access to transaction records. At about the same time, the Forest Service was undergoing a transition from one accounting system to another, which caused confusion throughout the agency and created a gap in reliable reports for up to two years for some departments. To simplify things in the Enterprise Program, the lab decided that the bank would use the off-the-shelf software QuickBooks to prepare financial statements to meet the enterprises' need for accurate and timely data.

As organizational expert Peter Senge has observed, "Today's problems come from yesterday's solutions."¹² Reviews conducted as the program reached its third year strongly criticized the inability of anyone in the bank or the enterprises to reconcile QuickBooks records with the Forest Service financial system, the Foundational Financial Information System.

In fiscal year 2000, the Enterprise Program employed eighty to one hundred of the agency's thirty-four thousand employees and was responsible for \$12 million of the agency's \$3.4 billion budget.¹³ Despite its small size, the program has been analyzed repeatedly during the past ten years. Supporters of the program cite these recurring reviews as more evidence of the agency immune system:

- Six Month Review, December 1999;
- Washington Office Review, February 2000;
- Human Resources Management Review, May 2000;
- PriceWaterhouseCoopers Review, October 2000;
- Office of Inspector General Review, June 2001;
- Social Enterprises Strategy Group Review (Pandolfi Report), December 2004;
- Washington Office Financial Policy Review, October 2004; and
- Deputy Chief, Business Operations Review (Pyron Review), June 2006.

Each review has revealed flaws in the program and recommended or even mandated solutions. Among the recurrent problems during the first six years was the lack of accurate financial data. Although these financial issues had several interrelated causes—the challenges of inventing new processes, the struggle for enterprisers to interface with the existing financial infrastructure—this shortcoming did much to undermine assertions by program leaders and participants that it was full-cost recovery, that it was more efficient, and, especially, that it was emulating the private sector's wise business practices.

The three reviews completed in 2000 all cited financial issues. The Washington Office review, completed in February 2000, documented that financial data in QuickBooks did not reconcile with agency figures for the Working Capital Fund. The review also noted that transaction codes necessary for the Enterprise Program to fully utilize the agency's financial system had not been created—something beyond the control of the lab or the bank. In 2000, to address financial problems, Region 5 placed the bank under its financial management department. Although it is difficult to determine whether this has provided any long-term benefit, in the short term the transition made the already confusing situation more chaotic.

Along with criticism over its financial information, the Enterprise Program has received accolades. Customer surveys conducted for the PriceWaterhouseCoopers Report indicated a strong demand for products and services and a great deal of repeat business. This report recommended program expansion, preferably by expanding into additional regions and outsourcing financial management to address problems facing both the program and the agency at large.

RETRENCHMENT AND RENEWAL

The reviews brought to light flaws within the system and in effect served as a checklist of issues to address. Perhaps the biggest challenge at the program level, however, was a complete turnover in the Reinvention Lab. In April 2001, Director Mike Duffy retired and was replaced by an acting director. The lab's other two employees—the accountant and administrator—departed shortly thereafter, leaving the program without permanent leadership for more than a year. Nonetheless, the enterprise units flourished. The acting director, Jeni Bradley, was herself an enterprise business leader. Her official tenure as acting director expired before the position was filled, but she continued to hold the position on a voluntary basis until a replacement arrived. Business leaders banded together during this time to create the Enterprise Unit Partnership. It signified their determination to remain successful despite the lack of



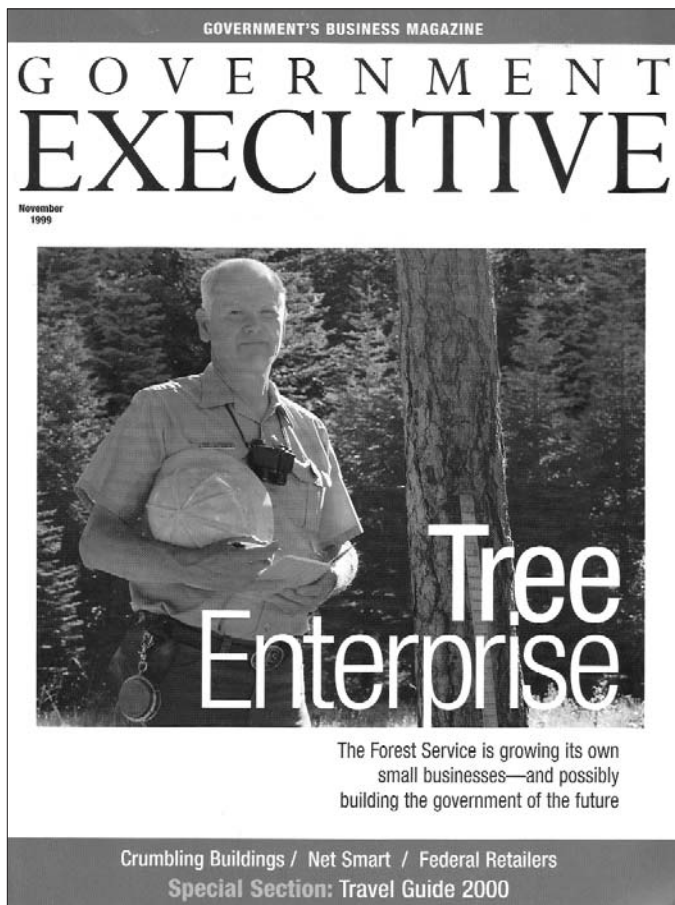
COURTESY OF U.S. FOREST SERVICE

Not all Enterprise Unit work is above ground. The ACT2 Enterprise Unit provided data stewardship for the Southern California Arrowhead Tunnels Inland Feeder Project on the San Bernardino National Forest.

leadership and the fluctuations in political climate. In the face of uncertainty and continued criticism, enterprises continued hiring employees, gaining new customers, and serving repeat customers. Most importantly, they increased their partnerships with each other—they teamed up to provide training to the agency, stronger units mentored weaker ones, and some units collaborated on projects that called upon multiple areas of expertise.

Laurie Fenwood, who had a resource management background, was appointed Reinvention Lab director in June 2002. She quickly hired Mary McDonald to be her fiscal manager. Whereas Duffy's era had been innovative and exciting yet troubled, Fenwood's tenure began with a list of problems to fix. First and foremost, the financial position of the program was unknown. Fenwood and McDonald approached the list methodically, spending time getting to know each enterprise and evaluating the several reviews of the program.

In late 2003, McDonald and a team of administrative officers from Regions 5 and 3 (Southwest) reviewed the financial reporting process. They determined that the best way to provide the information was in the form of reports from the agency's Foundational Financial Information System. The lab then took over the reporting function from Region 5's financial management office.



Merl Sturgeon was featured in Anne Laurent's article on the Enterprise Program published by Government Executive in November 1999. Sturgeon, who retired in 2007, started the TEAMS Enterprise Unit with Bill Hay, who remains as the unit's manager.

In 2004, the lab conducted a program-wide effort to reconcile seven years of data for each of the 19 units. The Herculean undertaking took eighteen months. As corrections were made during the process, some enterprise units saw their perceived cash positions increase, others saw a decrease. But in the end, the reconciliation showed a stable set of numbers.

In 2005, when the Forest Service centralized all budget and finance to the Albuquerque Service Center, the Reinvention Lab hired the Digital Visions enterprise to create a database that allows enterprises to interface online with this service center to request and process accounting transactions. The database provides instant records of transactions.

THE ENTERPRISE PROGRAM IN 2007

In the first few months of fiscal year 2007, ten years after its creation, the Enterprise Program was made a permanent, national program placed in the Washington Office under Deputy Chief for Business Operations Hank Kashdan. William Helin was appointed director and the name Reinvention Lab was changed to Enterprise Program Office. When asked about his vision for the newly national program, Chief Dale Bosworth responded, "Now that we've made the decision to go national with the program, my expectation is that all units in the Forest Service will

be aware of the Enterprise Program.... They're Forest Service employees. They're mobile, they're skilled, [and] they know how to get the job done."¹⁴

As of August 2007, there were fourteen Enterprise units, down from a peak of twenty-one. Two units disbanded because their offerings had been made obsolete by agency-wide centralization of certain business processes. Five had disbanded because of irreversible negative cash positions or an inability to demonstrate viable offerings. During its first ten years the program grew from twenty-five employees to about 215 permanent staff. Total gross income for the units has climbed from \$200,000 to about \$27 million at the end of 2006. Until his retirement in 2007, Merl Sturgeon, who had created TEAMS with the help of his family, operated the largest unit, with some 120 permanent employees. Enterprisers serve dozens of Forest Service customers per year while also working for other government agencies at the local, state, federal, and international levels. Table 1 lists each enterprise and its offerings.

When asked whether the program had succeeded, Gifford Pinchot answered, "The Enterprise [Program] is a glorious success. It was handicapped. It fought with one hand behind its back [against] accounting systems that didn't support it, human resource systems that didn't support it. And it is still delivering exceptional service [to] happy customers who love using the same Enterprise Teams over and over again. I'm not quite sure why people are still asking that question."¹⁵

The Enterprise Program began as a response to budgetary challenges coupled with the government-wide call to reinvent the way business was done. The unconventional program was based on private sector business practices, such as full-cost recovery, competition, and customer service—radical responses, given the agency's history of zero-sum budgeting and its traditions. Entrepreneurial spirit, tempered by numerous reviews and often stern criticism, transformed the experiment into a viable, efficient alternative for conducting agency business. Proof of its viability came after ten years of operation, when the program went national. □

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NOTES

1. Al Gore, "The Best Kept Secrets in Government," *National Performance Review*, 1996.
2. The act required that the secretary of Agriculture's reorganization proposals carry out the president's designation of the Forest Service as a reinvention lab pursuant to the National Performance Review. The proposals included "Reorganizing the Service consistent with the principles of interdisciplinary planning; redefining and consolidating the mission, roles, and research conducted by Service employees; reforming the Service's budget structure; defining new measures of accountability; achieving structural and organizational consolidations; sharing administrative resources with other Department units; increasing the percentage of Service employees retained at organizational levels

Table 1 **ENTERPRISE UNITS AND THEIR PRODUCT OR SERVICE**

| Name | Website | Product or Service |
|---------------------------------|--|---|
| ACT2 | www.fs.fed.us/enterprise | Full-service NEPA (right side—left side) documentation, biological and earth science analyses, GIS, mapping, publishing |
| Adaptive Management Services | www.fs.fed.us/adaptivemanagement | Ecosystem management support and data analysis |
| Creative Conflict Resolution | www.fs.fed.us/enterprise | Mediation, group conflict resolution, conflict coaching and consultation, team development, facilitation, training |
| Digital Visions | www.fs.fed.us/digitalvisions | Information technology product development, support and training |
| Forest Resource Enterprises | www.fs.fed.us/enterprise | Tools, analysis, and training for the management and implementation of forest product programs |
| FS Grant Strategists | www.fs.fed.us/enterprise | Partnership strategies |
| Heritage Design | www.fs.fed.us/heritagedesign | Tourism planning and comprehensive visitor services |
| Independent Resources | www.fs.fed.us/inre | Business plan development, implementation, and training |
| Mountain Heritage Associates | www.fs.fed.us/enterprise | Support for stewardship and public use of heritage resources |
| Recreation Solutions | www.fs.fed.us/recreation/recreationsolutions | Planning, documentation, and design for recreation and trails |
| Streamline | fsweb.rsl.r5.fs.fed.us/ep/nepa/training | NEPA training and ID team coaching |
| TEAMS | www.fs.fed.us/teams | Environmental planning, pre-NEPA and NEPA analyses, project implementation, and quality assurance |
| Trails Unlimited | www.fs.fed.us/enterprise | Interactive trail training, consultation, and construction for all types of trails: hiking, equestrian, biking, and OHV |
| Vegetation Management Solutions | www.fs.fed.us/vms | Ecosystem management and advanced data technology |

below regional offices, research stations and the area office. The Secretary must submit a report to Congress by March 1995 describing actions to carry out this reorganization.” <http://ipl.unm.edu/cwl/fed-book/agreorg.html>, accessed July 26, 2006.

3. USDA Forest Service, *Reinvention of the Forest Service: The Changes Begin* (Washington, DC: U.S. Department of Agriculture, 1994), quoted in Anne Laurent, *Entrepreneurial Government: Bureaucrats as Business People*, PricewaterhouseCoopers Endowment for the Business of Government, May 2000.
4. The union is the National Federation of Federal Employees.
5. Gifford Pinchot III, interview with author, April 7, 2006.
6. If an enterprise unit failed, its employees would be placed on the WRAPS list.
7. Merl Sturgeon, interview with author, May 12, 2006.
8. Relationship capital refers to sales made based on existing relationships rather than building a new customer base through marketing activities.

9. Neither the federal government nor the Enterprise Program earns a profit. Enterprise is allowed to build up reserves in the Working Capital Fund as a means for investing in growth of the business or as a reserve against lean times.
10. Quote from *Enterprisers and You: The Winning Combination*, a video produced by TEAMS Marketing Enterprise Unit, 2006.
11. During times of downsizing, vacant positions often go unfilled. One staffing strategy employed by managers is to hire an enterprise unit to complete specific tasks. This is not a direct replacement of permanent staff by an enterpriser because enterprisers by nature serve multiple clients on multiple projects.
12. Peter Senge, *The Fifth Discipline: The Art and Practice of the Learning Organization* (New York: Doubleday, 1990), 57.
13. PriceWaterhouseCoopers Report, October 2000.
14. Quote from *Enterprisers and You: The Winning Combination*, a video produced by TEAMS Marketing Enterprise Unit, 2006.
15. Pinchot, interview.